Public Disclosure Authorized

# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 05-Jan-2022 | Report No: PIDA31613

## BASIC INFORMATION

### A. Basic Project Data

| Country | Project ID | Project Name | Parent Project ID (if any) |
|---|---|---|---|
| Liberia | P171997 | Liberia Investment, Finance and Trade Project | |
| **Region** | **Estimated Appraisal Date** | **Estimated Board Date** | **Practice Area (Lead)** |
| AFRICA WEST | 08-Dec-2021 | 09-Feb-2022 | Finance, Competitiveness and Innovation |
| **Financing Instrument** | **Borrower(s)** | **Implementing Agency** | |
| Investment Project Financing | Ministry of Finance and Development Planning | Ministry of Commerce and Industry, Central Bank of Liberia | |

Proposed Development Objective(s)

To improve the investment climate, expand sustainable access to finance, and increase the efficiency of trade in Liberia

Components

Component 1:Trade & Investment-Enabling Environment
Component 2: SME Access to Markets and Finance
Component 3: Digital Financial Services Infrastructure
Component 4: PIU and CERC

## PROJECT FINANCING DATA (US$, Millions)

### SUMMARY

| | |
|---|---|
| **Total Project Cost** | 40.00 |
| **Total Financing** | 40.00 |
| **of which IBRD/IDA** | 40.00 |
| **Financing Gap** | 0.00 |

### DETAILS

**World Bank Group Financing**

| | |
|---|---|
| International Development Association (IDA) | 40.00 |

| | |
|---|---|
| IDA Credit | 20.00 |
| IDA Grant | 20.00 |

Environmental and Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

### B. Introduction and Context

Country Context

1. **Liberia's economy is expected to rebound by 3.6 percent this year having suffered a series of shocks, including Ebola, commodity price volatility, and COVID-19, that saw per capita GDP decline 12.3 percent (2014-2020) and poverty rates hit a high of 52.1 percent in 2021.** This contraction reversed almost half the gains of the decade of growth (2004-2013) following the 1980-2003 civil war period that in turn had reduced output by 90 percent.

2. **Liberia graduated from the FCS list for FY22, however, it is still in a fragile economic state.** COVID-19 is depressing demand for exports, disrupting investment in export-oriented sectors, and has further reduced remittance inflows (11 percent of GDP in 2020 vs a 2011 peak of 22 percent). The latest High-Frequency Survey showed that about 35 percent of the businesses reported a decline in revenue and more than 80 percent of the households were worried about not having enough food to eat. Vaccination rates are picking up with 15 percent fully vaccinated as of mid-December 2021 but significant downside risks to the nascent recovery remain.

3. **Development challenges include a weak investment climate, inefficient trade, a lack of access to markets and finance, particularly for SMEs, and a lack of key digital financial services (DFS) infrastructure.** The Government continues to work under the Long-Term Framework of the Vision 2030 which aims to transform Liberia into an inclusive middle-income country by 2030. The country's Medium-Term National Development Policy Framework is embodied in the Pro-Poor Agenda for Prosperity and Development (PAPD) 2018-2023. Governance challenges remain.

4. **The working-age population is projected to increase by nearly 1 million by 2030.** There are also substantial gender gaps in labor market outcomes. A predictable, transparent, and consistent investment climate, harnessing opportunities for increased connectivity to regional and global markets and better access to finance are the key pillars for sustainable formal job growth.

5. **Liberia is also vulnerable to climate change, with an economy dependent on environmentally sensitive sectors such as agriculture, fishery, mining, forestry, energy, and transportation.** Climate stressors include increasing average temperatures, unevenness in rainfall and local climate, prolonged heatwaves, and more frequent and severe flooding. Storm surges and rising sea levels will exacerbate coastal erosion, directly impacting the large share of the population that lives near the coast. The impact of climate change could increase the share of Liberians living below the poverty line by 2-6 percent by 2030.[1]

6. **Despite these challenges, Liberia's political and macro-economic situations remain stable.** The 2017 presidential elections were the first democratic power transition in over 70 years and have since been followed by successful senatorial elections coupled with a referendum in December 2020. The Central Bank of Liberia (CBL) has maintained tight monetary policy to help contain inflation to single digits, and the government has continued fiscal consolidation, with strong revenue mobilization efforts.

## Sectoral and Institutional Context

7. **Liberia's Indicators covering investment climate, trade and access to finance point to uncompetitive private and financial sectors.** Liberia was ranked 132nd out of 140 economies in the 2018 Global Competitive Index (GCI), down from 111th in 2012-13 when Liberia ranked alongside Egypt (107), Kenya (106) and Cameroon (112), and ahead of Nigeria, Senegal, and Bangladesh. Benchmarking shows that Liberia now lags its neighbors across all competitiveness drivers, and along with the enabling areas of Infrastructure (136th) and the Financial System (127th). Liberia is also falling behind in the areas critical for business to compete in a post-COVID world. For example, ICT Adoption (139th), Skills (127th) and Innovation Capacity (135th). Similarly, Liberia ranked 175th in the Doing Business rankings, and while credit to the private sector increased from 7.7 percent in 2009 to 14.0 percent in 2019, it remains behind both the regional and fragile state averages. According to the 2017 WB Enterprise Survey, 39 percent of Liberian firms identified access to finance as a major constraint keeping them from expanding their businesses. Likewise, access to basic financial services is also limited with only 17 percent of adults having a bank account and 36 percent holding an account at a financial institution or with a mobile money provider.

8. **COVID 19 has put further strain on Liberian firms with Business Pulse Surveys showing that 50 percent of all Liberian firms had at least temporarily closed or not re-opened by June 2021, after the Government-imposed lockdown.** More than 50 percent of firms in August 2021 continued to report problems in paying bills, rent or wages, compared to almost 70 percent in June 2021. Cash flow challenges seem to have improved for food/accommodation sectors by August 2021. 22 percent of all businesses reported difficulty in obtaining financial services. Higher levels of firms in the manufacturing and trade sectors reported difficulty in August 2021 (compared to June 2021). Finally, more than two-thirds of firms reported decreased sales in June 2021 following a lockdown period which imposed restrictions on consumer and business activity.

[1] World Bank (2016) "Shockwaves: Managing the impacts of climate change on poverty." Climate Change and Development Series. Washington, DC

**Box 1: Initial Impact of and Response to the COVID-19 Pandemic on Firms**

**In response to the global outbreak of the corona virus, President Weah declared a series of lockdown measures which lasted from April 11 to May 26, 2020**. These lockdown measures, although necessary, had a significant negative impact on business activity in the country. Even after lockdown measures were lifted, more than two-thirds of firms continued to report declining sales, and a sizable portion of firms remained either temporarily closed or only partially open. The effect of the lockdown measures, together with global travel restrictions and the general slowdown in external demand have produced significant challenges for firms to pay for operational expenses (bills, rent, wages, etc.) and maintain inventory levels.

**While business activity appears to have rebounded with most firms now resuming operation, the experience among different firm segments has not been uniform**. Firms in manufacturing and trade sectors have registered much less improvement since the onset of the pandemic, in terms of paying expenses, maintaining inventory, and accessing finance, compared with firms in food, accommodation, and other service sectors.

**As with impact, firm level responses have been heterogeneous with most firms unaware of government programs and a small share (less than 4 percent) reporting having received any government support.** While firms overall have been much more likely to cut worker hours versus laying off workers or reducing wages, there were substantial workforce reductions in the accommodation, food, and service sectors, with large firms employing more than 25 workers accounting for most of the layoffs. On the other hand, usage of mobile money and digital platforms has increased since the onset of COVID-19, especially among firms in trade and business service sectors such as in the finance, legal, and ICT professions.

9. **To better facilitate private investment, greater coordination between and amongst Government ministries and agencies is needed.** Today there is insufficient consideration given to the impact of regulatory decisions that affect the private sector. To help address business environment challenges, in October 2018 the President established the Business Climate Working Group (BCWG) with the mandate to explore evolving challenges and prospects of the Liberian business environment and propose plans and strategies to improve it. The President appointed the Minister of Finance as Chairman of the BCWG, with the Secretariat housed within MFDP. This Working Group has convened several times, however recommendations to the President and Cabinet on business climate reforms are still pending. Moving forward, the BCWG Secretariat needs capacity building to enable them to properly carry out their function.

10. **The Government's experience in attracting FDI is mixed with the inflows below US$100 million per year for the last two years.** While this was in part consistent with falling FDI on the continent during the COVID-19 pandemic, Liberia also faced its own challenges. Notably Liberia's principal government agency charged with attracting and facilitating large-scale investments, the National Investment Commission (NIC), was not set up as a traditional Investment Promotion Agency (IPA). Today NIC has a structure and mandate more geared towards negotiating investment agreements. NIC does little investment promotion and facilitation, and its work does not include rigorous analysis of investment trends, and location specific economic and infrastructure analysis that savvy global investors require before making investment decisions. Accordingly, NIC needs significant capacity building to generate relevant data that will enable them to improve modelling and investment promotion. Additionally, NIC needs significant capacity building to understand what it is that prospective investors seek. NIC also needs a robust investor grievance mechanism.

11. **Another important gap in the private sector investment process is the absence of a facilitation body to ensure that negotiated CAs come on stream seamlessly.** All concession agreements (CAs), for investments greater than US$10 million, are finalized by the country's Inter-Ministerial Concession Committee (IMCC) that reports to the President's Office. Once CAs become legally binding, investors are left to figure out how to best operationalize their investments. The government agency that should have this responsibility of assisting investors is NIC, however NIC to date has not been set up to perform this task. Going forward, NIC will need to work with numerous government stakeholders, such as IMCC, NPA (National Planning Authority; importation of equipment, raw materials), Customs, Environmental Protection Agency (EPA), Ministry of Transport (vehicles and heavy equipment registration), Ministry of Health (clinics, hospitals), Ministry of Education (schools), Ministry of Public Works (roads, staff housing) and Local Governments.

12. **Lack of predictability and transparency in business regulations reduces firm profitability and productivity.** Whether for business registration, construction permits, trade approvals, tax clearances or other forms of government regulatory services, the cost of doing business in Liberia is imposing severe constraints on firm level productivity. Formal firms are burdened with paper-based licensing, clearances and approvals involved in starting and operating a business. Moreover, the paper-based system enables discretion during approval, and opens the possibility of ubiquitous side payments at all levels, versus predictable and transparent access to government services.

13. **As a small open economy, with a trade-to-GDP ratio of over 120 percent in 2018, highly dependent on imports for consumption, services and industrial inputs, trade is a direct input to economic growth and shared prosperity.** Moreover, with the narrow export base and inward oriented production base, export orientation remains the key enabler of inclusive economic recovery and transformation. Yet all trade goes through a single cramped, inefficient, and costly port in Monrovia. More importantly, while the Customs authority has implemented a strong on-line system of remote submission of customs declaration and other trade related documents, all trade-oriented regulations are paper-based.

14. **Recognizing the critical nature of connectivity to regional and global markets, Liberia has accelerated its trade facilitation implementation plan under the new African Continental Free Trade Area (AfCFTA).** After becoming a WTO Member on July 14, 2016, Liberia began implementing the WTO agreements according to its post WTO-Accession Implementation Plan, to the extent possible, given the capacity and resource constraints. A landmark passage of an extensive revision of the Customs Code anchors the foundation for implementing the standards and principles of the WTO Trade Facilitation Agreement (TFA). At the same time, the WTO TFA enables Least Developing Countries like Liberia to proceed deliberately as requisite technical assistance becomes available. Therefore, technical guidance from the TFA forms a roadmap toward a transparent, predictable, and cost-competitive trade system. The objective of the TFA is to help enable Liberia to change its trajectory towards a sustainable import-export balance.

15. **At 14 percent of GDP, credit to the private sector is well below the regional average of 46 percent in 2018.** The distribution of credit concentrated in trade (32 percent), consumer loans (19 percent) and services (10 percent). Lending to SMEs is constrained by information asymmetries, collateral requirements, and high costs of transactions. While the Capital Adequacy Ratio (28.5 percent) and Liquidity Ratio (38.8 percent) of Banks were still high as of December 2020, the nonperforming loan (NPL) ratio rose from 13.9 percent in December 2018 to an

unsustainable 21.2 percent in August 2020. This has led to an increased aversion to lending to SMEs. The CBL has started implementing an action plan to address financial sector risks with support from the International Monetary Fund (IMF) and has also articulated a National Financial Inclusion Strategy, which addresses financial sector infrastructure and access to finance issues, with support from the WBG.

16. **The ongoing COVID-19 pandemic has amplified the urgency of utilizing digital financial services (DFS).** DFS helps keep financial systems functioning and keeps people safe during this time of social distancing, falling demand and tightening credit conditions. Digitizing payments is an important step to achieving greater financial inclusion as it generates detailed transactional data which can be used as a basis to estimate income, evaluate risks, and extend financial services to unserved businesses and individuals. Basic payments infrastructure that facilitates interoperability between payment systems is critical as it increases the efficiency of payment systems, lowering the transactional costs of usage of cards and mobile wallets both for individuals and SMEs. This can lead to increased usage and merchant acceptance of digital payments and help increase access to finance for those SMEs due to the creation of digital records which can be used by financial institutions when conducting their creditworthiness assessments. Over the past five years, CBL undertook significant steps to modernize its payment systems, however the promise of the National Electronic Payments Switch (NEPS), which aims to provide a unified and real-time platform for connecting all banks, MFIs (Microfinance Institutions), mobile money operators, and utility service providers, remains largely unrealized. Several issues hindered CBL from achieving its objectives, including high operational costs coupled with a low volume of transactions and limited number of participants – and a renewed NEPS implementation is warranted.

17. **The lack of a modern credit information system that addresses the information gap in the credit market is one of the key factors contributing to the low level of access to finance for SMEs.** The current public credit registry, and collateral registry, are limited in their ability to mitigate the banking risk of financial intermediation, as they are supported by manual data input, without online access, and do not have historical data. A modern credit registry that is based on a national ID and integrated with other systems was piloted by the Central Bank of Liberia (CBL) but has not advanced. The deployment of a modern electronic credit registry that captures borrower financial profiles to support good credit underwriting, will help to increase efficiencies in the financial intermediation process including improved access for SMEs, and to foster a responsible credit culture with positive impact on the lending portfolio of banks and financial institutions.

18. **Liberia globally ranks 156th out of 162 countries in the 2019 Gender Inequality index.** This index benchmarks national gender gaps using economic, political, education, and health criteria. Liberia has made important gains in the Freedom of movement, laws affecting women's decisions to work, laws affecting women's pay, and constraints related to marriage. Liberia enacted legislation protecting women from domestic violence. According to the WBL 2020 index scores, improvements need to be made in Parenthood and Entrepreneurship; Assets; and Pension (Index score of 40, 70, 80, 75 respectively). Labor force participation in Liberia is high based on the ratio of female to male labor force participation compared to Sub-Saharan Africa, however the gap between female and male in the employment industry is 9.5% which is large compared to the agriculture (4.0%) and services (13.9%), where women are more dominant.

### C. Proposed Development Objective(s)

To improve the investment climate, expand sustainable access to finance, and increase the efficiency of trade in Liberia.

Key Results

**PDO Level Indicators**

- Private investments committed (US$ millions)
- Share of license types processed through OSS (%)
- Share of trade transactions covered by NSW (%)
- Number of supply-chains/clusters with new linkages that involve SMEs
- Number of SMEs with a loan via the line of credit (gender disaggregated)
- Annual volume on National Electronic Payment Switch (US$)

**Intermediate Outcome / Output Indicators**

- Private investment leads (US$)
- Share of license types available on OSS (%)
- Number of NSW users (gender disaggregated)
- Number of policies, regulations, procedures, and institutional improvements passed/adopted/improved
- Beneficiary satisfaction with NSW and SME skills training (%, gender disaggregated)
- Number of SMEs receiving technical assistance (gender disaggregated)
- NPL ratio of Line of Credit portfolio (%)
- Number of institutions connected to the National Electronic Payment Switch
- Percent of adults covered by the credit registry (% of adults)

### D. Project Description

19. **The project will have the following four components: (*I) Investment Climate and Trade; (II) SME Access to Markets and Finance; (III) Digital Financial Services Infrastructure; and (IV) Project Implementation, Monitoring & Evaluation and CERC.***

***Component I. Investment Climate and Trade (US$16.0 million)***

20. **This component supports improvements in Liberia's business environment by strengthening critical Government to Business (G2B) services covering international trade, business licensing and private investment.** This component builds on and complements the extensive advisory work that has been carried out in recent years by IFC and others and which will continue through the initial implementation stages of the project. Given the project's emphasis on institution building in a capacity-challenged environment, the ongoing IFC AS is deemed critical in fostering complementary reforms, buttressing capacity building efforts and in key strategic areas, to support GoL to rapidly implement the project's activities.

21. **As the lead Government agency for fostering and maintaining a conducive environment for trade, industry and investment, the Ministry of Commerce and Industry (MOCI) is uniquely situated in the nexus of regulatory and business services.** MOCI leads negotiation and implementation related to Liberia's international trade agreements, including Liberia's WTO accession and implementation of the WTO Trade Facilitation Agreement. With the 2018 African Continental Free Trade Agreement (AfCFTA) entering into force in 2019, for trade commencing in January 2021, new opportunities exist for MOCI to offer Liberia's traders and producers a cost-competitive trade and production regime. Through additional roles ensuring quality and safety standards for traded products and its mandate to attract, register and support SMEs (Small Medium Enterprises) to the formal sector, MOCI's program for Business Climate reforms lies at the heart of GoL's emphasis on job creation through economic transformation.

22. **At the same time, significant advances in trade and production competitiveness have become increasingly attainable, not least through added information and communication technologies (ICTs) that automate G2B interactions.** Part of the "all-of government" plan for implementation of Liberia's Digital Economy for Africa Program (DE4A), includes the use of the digital economy to G2B services through connectivity among agencies, process reengineering, document digitization, services automation, and on-line interaction with participants. Naturally, the speed to which reforms of these types begin to show impact on business competitiveness is related to the technical capacity of, and willingness to integrate among, the key government agencies involved in establishing a new business environment for the Liberian private sector. With speed and certainty lynchpins of good business regulation, the new generation of ICT-based platforms foster the required collaboration amongst multitudes of participants and interests that only strong leadership can foster.

23. **Liberia acceded to the WTO on July 14, 2016, and on behalf of the larger Liberian trading community, the Government is launching its next round of trade reform, including plans to implement specific areas of the WTO Trade Facilitation Agreement which Liberia ratified on April 29, 2021** to (i) organize, digitize and publicize through electronic means, its full range of trade information (TFA Article 1.1, 1.2); and (ii) introduce a National Single Window (NSW) to electronically handle the full range of trade transactions for all stakeholders (TFA Article 10.4).

***C.1.1: Support for Private Investment (US$5.0 million)***

24. **The Government has begun the early implementation of a new spatial strategy to accelerate large and potentially transformative private sector investments.** A spatial approach (including a focus on new growth corridors, industrial parks, and special economic zones) should allow for better coordination within government and with the private sector. Spatial tools enable bundling for cost-effective delivery of support to industries and promote specific reforms to streamline regulatory processes and procedures. This approach usually involves shared infrastructure and services geared toward specific industries, the coordination of reforms, and readily available convening power to bring together public and private sector actors. Sector and spatial factors can also affect incentives for firm entry and growth. With this approach, investors see the advantages in cost and efficiency of firms working in proximity. Access to essential public goods such as land and traditional physical and common-use infrastructure is a key part of these calculations. When implemented correctly, spatial tools generally lead to increased private sector investment directed to areas of excellence and higher productivity in select industries

that, with proper linkages, will result in positive spillovers to the broader economy and significant sustainable job growth.

25. **The GoL has established the Liberia SEZ (Special Economic Zone) Authority (LSEZA) to guide the activities of zones and industrial parks.** The GoL is in the process of fast-tracking the institutional, legal, and regulatory arrangements that would enable the full launch of LSEZA and the operation of the proposed SEZ at Buchanan and its Special Agro-Industrial Processing Zone (SAPZ). This will include inter alia: the completion of the organizational structure for the LSEZA based on the provisions of the LSEZA Act and informed by the recommendations captured in the feasibility studies conducted by both USAID and AfDB (African Development Bank); a clear roll-out plan of the LSEZA that shows the establishment of main offices and sub-offices and staffing requirements and functions; and the technical support plan that will make LSEZA more functionally effective. The GoL is working with World Bank, IFC, USAID and AfDB to ensure that LSEZA is quickly launched.

26. **NIC and the IMCC face numerous challenges to attract larger investments.** These include NIC not being set up as a traditional IPA to facilitate investment attraction, and instead NIC has been mandated to negotiate investment agreements. As a result, NIC does little targeted investment promotion and facilitation work. For NIC and IMCC to be successful to attract large private sector investment, a more significant focus is required in the areas of the analysis of investment trends and investment preparation. Both agencies will also need to become more proactive and less reactive when it comes to working with strategic investors. NIC and IMCC will also need significant capacity building to understand why global investors operate the way they do and, importantly, how, and why such investors make strategic investment decisions. Within the broad investment attraction agenda, a key area will be the promotion and preparation of climate-friendly green investments, including in the infrastructure (PPP) space. The Government has also advised that the National Bureau of Concessions (NBC), the state entity responsible for the monitoring of large investments post-commissioning, is also in need for significant capacity-building and training, especially in their work with investors and achieving strong investment impact across agreed Key Performance Indicators (KPIs).

27. **Accordingly, Sub-component C1.1 will provide TA to LSEZA, NIC, IMCC, NBC, EPA and MFDP to enable Liberia to attract and retain large private sector investments and ensure its impact. This sub-component** will not fund any infrastructure for the zones or industrial parks**.** Resources will be focused on technical assistance needed to prepare large investments and institutional or regulatory support will be geared towards consolidating and reinforcing what is today a weak and fragmented institutional setup in support of private sector investment. The Project team will also work with IFC and the Government in this area of investment support. An important focus area of this support program is the screening of climate risks to ensure that new private investment, especially in the infrastructure and PPP space, is supported through climate-friendly and resilient solutions across four institutions of government (LSEZA, NIC, IMCC, MFDP), in addition to support for effective public-private dialogue (PPD). In this regard, US$2 million of the US$5 million of this Sub-component will support climate screening, investment strategy and promotion, early climate finance work and related PPD, in order to attract green investments that reduce greenhouse gas emissions. The areas of specific support for large private sector-led investments include the following:

- LSEZA: legal and regulatory support; LSEZA's operations manual; consultants to work with LSEZA management and staff; market assessments/demand assessments of zones/parks; preparation of justin-time studies and diagnostics (e.g., zone/industrial park feasibility studies, ESIAs (Environmental and Social Impact Assessments), developer and investor attraction); zone/industrial park benchmarking, and related capacity building.

- NIC: investment policy and promotion (IPP) work; capacity building for investor attraction and a new investor grievance mechanism; financial and economic analysis of investments; and the investor coordination work of NIC and other Government agencies.
- IMCC, NBC and EPA: strategic review; operational support including capacity- building and training.
- MFDP: support the operations of the Business Climate Working Group and its secretariat, including regular supervision work across related donor and other projects; regulatory review of needed near-term business climate reforms that support investments.
- Facilitation of public-private dialogue (PPD) between the Government and the private sector including a focus on green and low-carbon private investment via development of industry guidelines and action plans that increase competitiveness and optimize energy use.

***C.1.2: Support for Automated Business Licensing (US$3.5 million)***

28. **Registration and licensing systems regulate firms' entry into markets and can enable -- or constrain -- private investment potential.** Governments use these regulatory instruments to permit firms to operate in the formal sector and engage in particular business activities. While registration procedures and licenses are intended to realize public policy objectives like open and fair markets and protection of the public's health and safety, they can also impose undue compliance and opportunity costs on businesses. This in turn impacts businesses' competitiveness and productivity at the firm, sector and economy levels, and stifles private investment. An efficient and transparent registration and licensing system is, therefore, an important component of an investment-enabling environment.

29. **The current system for registering and licensing a formal business to operate in Liberia is cumbersome and inefficient.** Currently, like Denmark, France and Rwanda, Liberia requires only 5 procedures to register a business, fewer than 110 other countries. On the other hand, unlike those countries where registration takes five days or less, in Liberia, it officially takes 18 days: better than only 54 other countries. This indicates that the procedures in Liberia are significantly slower. Anecdotal evidence based on private sector consultations reveal that in practice, six to eight weeks and considerable management attention may be expected to obtain a business registration without additional facilitation fees. The time taken is therefore a binding constraint on business activity, with burdensome procedures disproportionately affecting smaller firms. The primary body for regulating entry is the Liberia Business Registry (LBR) which is institutionally under MOCI, and as such is constrained, particularly during times of fiscal consolidation and restraint from revenue generation, adequate budgeting, including staffing. As a result, recent gains made could not be maintained and the program for modernization and innovation has suffered.

30. **The GoL seeks to streamline and strengthen the systems to help potential formal firms enter the market by minimizing the complexity involved in starting a business.** To do so, the GoL envisions LBR becoming a service-oriented agency capable of immediately responding to business needs. Therefore, the project complements an IFC AS operation to support a modern business registration process that incorporates business licensing. The objective of the Sub-component C1.2 is to enable LBR to eventually function as an effective, automated One-Stop-

Shop (OSS) for businesses, and to use its regulatory function to provide a robust information management system available to the policy makers, lenders and creditors, and potential business partners. Importantly, the GoL is considering forms of legal, operational, and budget autonomy or semi autonomy found in countries like Serbia, Nigeria, and Sierra Leone, as a downstream option for institutional reform. LBR is preparing a Business Registry Options Paper which will outline options for institutional autonomy based on best practice around the world.

31. **The project has partnered with IFC to support a three-pronged Business Entry Reform program.** First, following a business process reassessment, the project will upgrade the 2011 ICT system to one that is "cloud based" and decentralized. Following the design of a robust system that allows businesses to register online, the project will support the GoL to procure the new system according to international standards. Secondly, the project will support the LBR's program to incorporate into the on-line registration system the requirements and processes for obtaining business, trade, and public interest licenses. The reforms will include identifying licenses regulating business activity and posting the information online, and process mapping and reengineering for key processes administered by the LBR and other institutions to be involved in the OSS and providing them with transactional (online processing) functionality. Finally, based on the Business Registry Options Paper prepared with IFC, and an assessment of the pros and cons of an autonomous body regulating business registration from global examples, the project will support establishment of the LBR as an autonomous body, including support for preparation of founding documents (law, regulations, articles), a business plan covering sources of revenue and nature of expenditures, along with ongoing capacity building for staff. During the design of OSS options for entrepreneurs with limited or no access to the Internet and/or online systems or in remote regions, the work will include physical portals/kiosks where users can log in.

***C.1.3: Support for the National Single Window for Trade (US$7.5 million)***

32. **Implementing modern trade facilitation practices has fundamental benefits for the Government in terms of improved traders' compliance, increased domestic revenue collection, and lower operational costs both for the trade industry and compliance agencies.** Yet, more important is the benefit to private sector competitiveness as trading companies are increasingly competing based on transport and logistics as major costs in their supply chains. These costs also affect SMEs disproportionately, who lack the ability to comply with complex trade regulations, opaque border procedures and a prohibitive cost of customs compliance. This makes SMEs uncompetitive in terms of cost, speed and predictability of operations and hampers their integration into regional and global supply chains. Thus, the key principles associated with effective trade facilitation include, (i) enhanced use of risk management to allow legitimate cargo flow unencumbered, (ii) application of automation, paperless transactions, and on-line interaction to eliminate corruption and increase compliance, and (iii) a 'whole of Government' approach, including lead agencies available at the border to ensure coordinated border management.

33. **With these goals in mind, the program to establish a National Single Window for regulatory compliance, reflects GoL's transformational aspirations for Liberia's trade orientation.** Since Singapore first deployed an NSW in 1989, 70 countries had implemented fully or partially an NSW by 2016. By 2020, the number rose to 90. As a small open economy, with natural connectivity, global demand for its resources, and now part of the largest free

trade area in the world, Liberia's private and public sectors recognize that the cost of trade is unsustainably high. Traders are obliged to repeatedly submit paper documents containing the same data to different trade compliance agencies. This translates to inefficient processes, extra costs, delays in the clearance process, higher risk of submission errors, and increased probability of corrupted practices via face-to-face transactions between Customs officers and the trade community.

34. **Therefore, the GoL has committed to further trade facilitation reform by considering various NSW solutions available on the market, including ASYCUDA-centric, proprietary PPP (Public Private Partnership) and open-source solutions.** Based on the prospect of financing the NSW under the project, MOCI has organized a multi-sector technical team to assess the wealth of information that has been presented to it over the years, is updating its knowledge base to include the latest developments and preparing options for policymakers to determine the best way forward. MOCI's options paper is being prepared with technical assistance from USAID's Liberia Economic Policy Dialogue Activity (LEPDA) project (and its contract firm Nathan), drawing from materials already collected and a series of technical webinars with NSW experts, and the engagement of the broad trade stakeholders. The WBG has participated as an observer in USAID's three technical webinars. The options paper will present to policymakers early in project implementation a coherent set of recommendations that have been technically vetted and have benefited from consultations with the larger trading community. The WBG has provided, upstream support for the preparation of the NSW in Liberia, via a recently closed IFC Advisory Services project and continues to do so in the context of related trade facilitation reform activities funded by the Swedish International Development Cooperation Agency (SIDA) the WB Trade facilitation Support Program funded by nine donor partners.

35. **Based on the NSW option chosen by the Authorities, the project will support the design, purchase, and implementation of Liberia's NSW to align with the WTO TFA.** Three phases of the NSW program are envisioned. The first, and most complex, preparation phase involves considerable visioning workshops, feasibility studies, blueprints, digital gap analysis, and detailed roadmaps. This activity involves numerous agencies and stakeholders. Currently, the Bank is working with MOCI and LRA on the development of the NSW; other government agencies are now joining the process. Project support also includes supporting the National Trade Facilitation Committee (NTFC), and robust public-private dialogue which will be critical to the success of this activity. The output of the first phase of the project is: (a) the NSW Blueprint/gap analysis that specifies foundational dimensions and may include where relevant (i)required legal framework; (ii) operational, governance and financial model including fee structure and revenue sharing options; (iii) functional and technical architecture model; and (b) capacity building and change management plan. The second phase involves financing, project supervision, quality assurance, implementation assistance for the rollout of the NSW. The principal activities in the second phase involve procurement, software development, platform deployment, testing and quality assurance. After the rollout of the NSW, the third phase involves maintenance and upgrades and evaluation.

***Component II. SME Access to Markets and Finance (US$11.0 million)***

36. **This component seeks to capitalize on emerging national, regional and international trade opportunities and the existence of Foreign Direct Investment in Liberia, to offer a combination of technical assistance and finance to support SMEs to access markets, improve capabilities and increase productivity.** In doing so, it also

aims to facilitate green investments by supported SMEs to improve competitiveness**.** This component aims to support the growth of formal firms with high potential to contribute to job creation and productivity growth in Liberia, creating a more dynamic and resilient private sector, as well as a more robust and sustainable entrepreneurship SME support eco-system. The component also aims to address key market failures that hinder SMEs access to markets by (i) launching a program delivering technical assistance (soft and hard skills training, tailored advice) to facilitate market access by SMEs and improving functional capacity of the SBA and (ii) improving access to finance through capacity building of financial institutions to better serve underserved SMEs and a line of credit. Under this Component, it is important that the TA (Sub-component 2.1) and finance (Sub-component 2.2) outlined below are mutually supportive and reinforcing, to ensure that the Project objectives with respect to supporting SMEs are met, given key constraints they currently face within the country. The subcomponents will refer SMEs to each other to maximize the qualified pool of firms and the benefits from both instruments. Sub-component 2.1 will also provide SMEs training to help them access financing under sub-component 2.2, i.e., to provide them with training to submit bankable proposals for financing, especially if the financing required is linked to accessing high value markets that the TA seeks to provide. Particular attention will be paid to firms making their production process more sustainable, go 'green' and address the needs of women-led SMEs.

37. **This Component also seeks to support firm capabilities, access to finance and investments in Climate Change Adaptations (CCAs).** While inadequate access to finance and firm capabilities (skills, the adoption of technology, business, and organizational practices) constrains the capacity of firms to produce and improve their means of production, there is a lack of dedicated support services to help firms address these deficiencies. There are also demand-side factors – firms being unaware about the needs and availability of local suppliers (i.e., information failures). In addition, SBA has limited institutional capacity to play its coordinating role (i.e., coordination failures). This component aims to alleviate demand-side constraints through providing direct financial and non-financial support, improve the entrepreneurial ecosystem and strengthen the coordinating role of the SBA.

***C.2.1: SME Access to Markets (US$4.0 million)***

38. **This Sub-component will finance TA (US$4 million) to upgrade the capabilities of SMEs operating in supply chains/clusters to meet the purchasing needs of larger buyers in domestic and export market. The TA program will offer information, training, and matchmaking for supported SMEs.** Specifically, it will be targeted at (i) supporting SMEs with market information, trends and requirements (ii) supporting SMEs to improve and demonstrate their ability to produce to the required specifications of buyers in selected supply chains and (iii) facilitating relationship with buyers, financiers and trained SMEs. Financiers may include Financial Institutions supported by Component 2.2 and other investors. Capability improvement efforts will focus on a combination of key areas and based on the assessed needs of SMEs and market and buyer requirements. These may include strategy and planning, operational management, people management, formalized business systems, new market entry and product development, getting finance, and operational improvement[2]. It may also include climate

[2] Adams, R., J. Bessant, and R. Phelps. 2007. *Life Cycles of Growing Organizations: A Review with Implications for Knowledge and Learning.*

change screening for each firm based on their ability to contribute to climate adaptation and mitigation, and possible climate labelling opportunities.

39. **Similar initiatives to support SME's access to market through Supplier Development Programs and Export Competitiveness Programs have yielded positive impact on SME's income through increases in sales and contract values.** Likewise, positive impact has been observed and locally based Multi-National Corporations have increased their purchases of local tradeable goods and services. Such results have been recorded in Costa Rica, Czech Republic, Macedonia and Brazil[3].

40. **Eligible supply chains include all productive sectors that can generate high job multipliers and SME increase in sales from invested resources, with an initial focus on agriculture/agro-processing, light manufacturing, and logistics services.** Supply chains/clusters in mining, fisheries, forestry, tourism, and tradeable digital services will also be considered. The Bank is currently working with MOCI to finalize the list of high-potential sectors/clusters. In addition, the Government has already hired a firm to assist with this initial screening work. A private consulting firm with international experience and strong knowledge of the Liberian market will be hired through a competitive process to manage the program under the supervision of the SBA with reporting lines to the PIU and SBA.

41. **Responsibilities of the consulting firm will include both work in identifying markets and building capabilities.** It is envisaged that the consulting firm will support the selection of SMEs and administer technical assistance to build capabilities of selected SMEs. It will also have responsibilities to identify promising market opportunities, identify market requirements, facilitate exposure to such markets, facilitate formal relationship between buyers and SME suppliers and provide support in follow up of emerging sales opportunities. The consulting firm will work with MOCI and SBA to refer SMEs receiving TA support under sub-component 2.1 to the FIs operating under sub-component 2.2 (below). The purpose of this linkage work across the two sub-components is critical, i.e., access to finance (to fund working capital, equipment, etc.) may be one of the binding constraints faced by the SMEs receiving the outlined TA.

42. **Selection of SMEs into the program will be supported by the consulting firm.** The firm will work with applicant SMEs that will submit proposals for upgrading skills, technology adoption, training, and certification, in supply chains/clusters with large buyers. The proposals for TA support will be submitted by SMEs themselves that work along an agreed supply chain/cluster and evaluated according to anticipated benefits such as increased sales, sustainability, employment, increased female employment, and youth employment. It is anticipated that the TA will identify high-potential SMEs and provide dedicated supplier upgrading support. In the choice of supply chains and clusters to be supported, the supplier readiness and expected economic impact of growth of the supply chain and cluster will be considered. It is important that the TA support identify high potential supply chains/clusters along which Liberia can be competitive in the medium term. Bank-executed trust funds have been accessed to assist in this early supply chain/cluster identification work. A demand-driven approach to the use of the TA support will be used throughout, to improve firm-level productivity through linkages between large investors and buyers and SMEs.

[3] World Bank. 2019. *SME Upgrading Programs: Exploring Initiatives That Combine Market Linkages and Capability Strengthening*

43. **The US$1 million CCAM (Climate Change Adaptation or Mitigation) window (of the US$4 million of the Sub-component C2.1) will support firms that adapt and mitigate climate risks, reduce greenhouse gas emissions, using the MDB (Multilateral Development Bank) definition for eligible investments.** The TA for this sub-component will support the screening and identification of firms' climate risks, and in particular, identify CCAM-potential supply chains, and develop CCAM action plans to be implemented by large buyers and their suppliers. In addition to consulting services, technical assistance will cover a wide range of adaptive and mitigative activities including advising on the switch to cleaner energy sources, climate friendly packaging and/or flood-proofing facilities. The needs of businesses will be assessed through the SME Facilitation program and a dedicated Climate Change (CC) Specialist working within the PIU. The CC Specialist will be responsible for climate screening – working closely with the Climate Expert in the private consulting firm – including doing the diagnostics of proposed management practices, both standards and technology.

44. **It is envisaged that initiatives will be designed specifically to address the needs of women-led business to access market, build capabilities and become more climate change resilient.** Initiatives are to take into consideration insights and lessons from the World Bank Gender Innovation Lab (GIL). These include the importance of good communications campaigns (evidence from Malawi) and the effectiveness of including personal initiative training (evidence from Togo) alongside other hard skills training to improve the outcomes of programs. Work completed in Togo has revealed that traditional forms of business training are not always as successful for female business owners but combining them with personal initiative training can significantly increase the impact of such interventions.[4]

45. **The project will support building functional capacity of the SBA.** These include its advocacy and policy and coordination functions through a project funded Advisor to provide strategic and operational advice to the leadership of the SBA. This is to improve the SBA's capacity to engage with and advocate on behalf of SMEs. Selected functional capacity will be built based on assessed needs through project support of domestic and international training and peer learning of technical staff of the SBA. Lastly, SBA's capacity to design and implement initiatives to support growth-oriented SMEs will be supported through closely working with the private consultancy firm responsible for the implementation of sub-components 2.1 and 2.2, as noted above. It is envisaged that SBA staff will build strong operational skills through 'learning by doing' as well as training to be undertaken by the private consulting TA firm.

46. **Importantly, this Sub-component will also build the capacity of local BDS (business development service) providers.** In this regard, the consulting firm will 'train the (BDS) trainers' and provide coaching and capacity building to select local BDS suppliers engaged in the delivery of the SME support services. This helps to start building a foundation of the local SME support ecosystem over the medium term.

[4] Campos, Francisco; Frese, Michael; Goldstein, Markus; Iacovone, Leonardo; Johnson, Hillary; McKenzie, David; Mensmann, Mona. 2018. Personal Initiative Training Leads to Remarkable Growth of Women-Owned Small Businesses in Togo. Gender Innovation Lab Policy Brief No. 22. World Bank, Washington, DC. https://openknowledge.worldbank.org/handle/10986/29168

*C.2.2: SME Line of Credit (US$7.0 million)*

47. **The project will fund technical assistance to participating financial institutions (PFIs) for US$1.0 million and US$6.0 million for a line of credit (LOC) to lend through participating financial institutions (PFIs) to eligible SMEs**. The PFMU in the MFDP will, in conjunction with the PIU, administer this component, and will be responsible for due diligence and selection of PFIs, monitoring of the loan portfolio, and reporting and assessment to improve financial services to SMEs. CBL will provide technical oversight of the PFIs in this sub-component, which is consistent with its role in monitoring the financial sector and its role in the Ebola MSME Facility.

48. **US$1 million in TA will support this sub-component to help reach the project objectives in five ways: (i) ensuring the critical link between sub-component 2.1 TA and sub-component 2.2 finance through mutual referrals and events that bring together supported SMEs and Financial Institutions; (ii) supporting the CBL to improve technical capacity for managing the SME financial sector, including disseminating the new microfinance regulation, (iii) helping the PIU to manage the loan portfolio, (iv) providing institutional development capacity building to FIs in good standing for improved financial and management systems, products tailored to SMEs, products tailored to women, and products that address climate change; and (v) training of trainers for financial institutions to improve the capacity of existing and potential SME clients to borrow.** The TA to FIs will be provided based on time-bound institutional development plans proposed by the FIs and approved by the PIU in accordance with the conditions established in the LOC Operational Manual. The component design recognizes the reluctance of FIs to lend to SMEs, especially those that are women-led, in Liberia due to several factors including a lack of long-term local currency liquidity and deficiencies in SME capabilities and business plans. The LOC and TA, along with the firm capability's component (sub-component 2.1 above), will provide critical access to finance for SMEs in the future, ensuring that eligible women-led firms are provided with sufficient technical assistance to access the LOC. The TA of Component 2.1 will be designed to 'graduate' SMEs by making them more likely to become eligible for financing by developing a clear business and investment plan for PFIs in the LOC facility, without a guarantee that they will receive a loan. Component 2.2 will also facilitate the referral by FIs of high-potential SMEs to Component 2.1 for capacity building.

49. **PFIs will be competitively selected with the PIU due diligence reports reviewed by the MFDP, MOCI and CBL, and selection will be based on (i) financial health and performance, (ii) good standing with CBL, (iii) a record of accomplishment lending to SMEs, (iv) an indicative pipeline that fulfills project goals, and (v) compliance with the project's E&S requirements.** The maturity of the loans will be significantly longer than what is currently available in the market for SMEs. The selection by the committee will be acceptable to the World Bank, based on a review of the due diligence report provided by the MOCI PIU. Based on demand by eligible SMEs, PFIs will be able to access tranches of funds, either in LRD (Liberian Dollar) or USD (US Dollar) from MFDP for on-lending to SMEs as approved by their own credit departments and will then provide periodic reporting to CBL which will, with the PIU, verify ex-post eligibility. The PFIs will in general pay interest to the MFDP for the loan amount at the 'savings rate' as competitively determined by the market for deposits and published by CBL, as specified with other terms and conditions in a Participation Agreement. The PFIs will also pay a commitment fee on any undrawn amounts, which will encourage the PFIs to on-lend the funds to SMEs efficiently. Such income will allow MFDP to offset some administrative costs, the exchange rate risks, PFI credit risks, and potential COVID-relief measures.

Depending on the disbursement performance of the PFI, MFDP with the PIU will have the authority to increase or reduce the amount of the credit line for a PFI. The target is to reach at least 600 firms with growth potential, with a focus on firms owned and or managed by women and emphasis on investments in climate adaptation and mitigation at the firm level.

50. **The project will support two specialized retail PFIs chosen through competitive processes.** The first retail PFI will serve the small business market and will be a commercial bank with experience financing SMEs efficiently and affordably and a sound loan portfolio. The second retail PFI will be a microfinance institution with experience serving the formal, or close-to-formal SME sector efficiently and affordably, and a sound loan portfolio. The retail PFIs will assume credit risk for loans to businesses and maintain a high-quality portfolio, providing quarterly reports and projections. The PFIs will ringfence the funds for easy measurement of the portfolio's performance, to maintain a transparent portfolio of project-assisted loans to eligible SMEs, and for project audit purposes. Each PFI will be able to set the interest rate and loan conditions to SMEs and will share this information with the PIU in their periodic reporting. Each PFI will ensure that firms receiving loans will be informed about the restrictions on fund uses, requirements related to worker safety, Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH), and business performance reporting. Each FI will maintain gender-disaggregated data on SMEs supported by the project. The component will also provide timebound performance based institutional development TA to retail financial institutions to improve systems and products tailored to SMEs. The TA will be reviewed by CBL on technical grounds and the PIU for compliance with project requirements and will be acceptable to the World Bank.

51. **In general, this component will conform with the best practices required by the World Bank Financial Intermediary Financing (FIF) guidelines for LOCs, and in particular, it will be building on the successful LOC launched under the Ebola-response MSME Finance Facility (P157797).** The previous project was three times over-subscribed, disbursing 2,600 loans, through three banks and four MFIs, growing the original amount of US$3.9 million to US$4.8 million in loans to MSMEs, and being assessed as having a high efficacy rating in the project ICR. This confirms a high level of demand for market priced loans by SMEs. The long history of learning of LOC implementations embodied in the World Bank FIF guidance point to market priced lending through well-supervised` retail financial institutions as an efficient and effective way to support SMEs, especially with loan products that have a longer than average maturity. Considering the pandemic, the sub-component will consider limited NPL forgiveness under objective criteria, to be designed based on an assessment to be funded by the Project Preparation Advance (PPA, see Annex 7). Operational details will be provided in an LOC Operations Manual, which will be aligned with the POM of the Ebola-response facility which continues to lend. This special option for support with loan defaults would, if implemented, be limited to "unwilful default", including cases in which the business is unable to repay the total amount with required interest due to a verifiable exogenous event (illness, COVID-related issues, a fire or flood).

52. **The LOC is also consistent with the Government's National Stimulus Program for Market Women and Petty Traders, its approach to COVID-19 relief and recovery for businesses and jobs and will be coordinated closely with other donor initiatives supporting SMEs (such as USAID and World Bank Social Protection Projects with grants program to informal beneficiaries).** The focus of the lending will continue to be medium to long-term sustainable financing for SMEs based on national definitions for firms, with a preference for women-led SMEs, and Climate Change Adaptation (CCA) generating investments where possible. All loans will be screened for CCAs by PFIs with the assistance of a specialist at the PIU, and CCAs will be further encouraged through TA from the project

to PFIs. Lending will be restricted to those activities categorized as low to moderate in terms of environmental and social risks. As well as the PFIs, all FIs (Financial Intermediaries) in good standing will be offered capacity building to strengthen their E&S Management Systems (ESMSs) and Monitoring & Evaluation (M&E) systems, as well as their product development with the objective of sustainably increasing SME access to finance. The IFC will be informed of all interactions with FIs to ensure complementarity in the interventions. Of the US$1 million in TA, US$200K would be earmarked for climate advisory and US$600K of the LOC would be earmarked for SME climate lending.

53. **To promote responsible use and accurate expensing of sub-loans, specific disbursement controls and practices will be in place for the line of credit.** First, to reduce the risk of unjustified large advances to the PFIs, there will be a clear definition of eligible businesses and loan amounts. The PFI will present a list of eligible firms to the PIU for review before loans are issued. The component's intention is to ensure efficient financial support to the firms, so funds should be disbursed quickly from the PIU to the PFI, and on to the eligible SME. The eligibility of disbursed funds will be determined at the time of disbursement to those eligible firms for eligible activities. One month prior to the project closing date, any residual funds remaining at the PFIs will be refunded to the Bank. To confirm the appropriate use of loan proceeds by firms, sampling files, interviewing firms (spot checks), provision of clear guidelines on firm and activity eligibility to the PFIs, and other mechanisms are envisaged in order to verify that sub-loans granted to eligible SMEs are used for their intended purpose. During implementation, if a PFI finds that a firm has misused funds, it would recover them according to its policies (in consultation with the PIU) and return those funds to the MFDP for reallocation.

***Component III: Digital Financial Services Infrastructure (US$9.0 million)***

54. **Digital Financial Services (DFS) help governments quickly and securely reach people with cash transfers and businesses with emergency liquidity.** DFS allows individuals and businesses to transfer and receive funds and to pay bills from their home, or in a market or store setting, with limited physical contact. Digitizing payments is an important step to achieving greater financial inclusion as it generates massive amounts of detailed transactional data which can be used as a basis to estimate income, evaluate risks, and extend financial services to unserved businesses and individuals.

55. **Basic payments infrastructure that facilitates interoperability between payment systems plays an essential role in building DFS at scale by getting more people to use and become familiar with DFS products.** Interoperability increases the efficiency of payment systems, lowering the transactional costs of usage of cards and mobile wallets both for individuals and SMEs. This can lead to increased usage and merchant acceptance of digital payments and help increase access to finance for those SMEs due to the creation of digital records which can be used by financial institutions when conducting their creditworthiness assessments. While Liberia has put in place an Automated Clearing House (ACH) and Real-time Gross Settlement (RTGS) system, a fully operational and sustainable retail payment switch to facilitate interoperability is a missing element of a modern payments system and key to DFS and for access to financial services. It will help put the country's financial system on a par with other countries in the sub-region by transitioning the country's economy from a cash-based to a cash-less one. Digitization and interoperability are high priorities for the CBL and the Government, also due to the chronic shortage of both Liberian and US$ bank notes.

56. **Likewise, a modern digital credit reference system, which financial institutions can use to effectively assess the credit risk profile of SMEs and individuals is critical to foster DFS and increased lending to the real economy.** Currently, the CBL uses a manual excel-based system that is susceptible to manipulation and error, and to significant delays in reviewing data, and it does not provide credit scores or facilitate on-line access for financial institutions to easily check. While CBL has embarked on an initiative to enhance the operations of its credit reference system a modern credit registry that integrates with the new national ID and other relevant systems and uploads relevant data is still missing.

57. **To advance digital financial services in the country, this component includes support for two critical financial infrastructure related items: (i) the national electronic payments switch (NEPS); and (ii) an update of the credit registry.** While the NEPS activities are expected to primarily help advance financial inclusion of individuals and micro and small enterprises, the modern credit registry, which will potentially also integrate the functionality of a movable collateral registry, is expected to benefit individuals as well as SMEs. Details of this support are outlined below. Both will employ international good practices for cyber security and data protection and will rely on third party national individual and corporate unique IDs.

58. **These financial infrastructure activities can support climate mitigation and adoption by changing how financial products and services are delivered.** They are expected to build resilience to the effects of climate change by enabling services such as payments, savings, credit, insurance, remittances, and government transfers that can provide critical support for those managing new environmental realities. Digitizing financial services can also be expected to reduce trips made e.g., to the bank, and the demand for managing cash, which requires substantial logistical efforts at all levels currently, from the government to financial institutions, to businesses to individuals. This dovetailed with the government/ regulators initiative to work on “greening” (e.g., experimenting with green energy for data centers) would further support climate agenda.

***C.3.1: National Electronic Payments Switch (US$7.5 million)***

59. **This sub-component will facilitate the introduction and implementation of the NEPS informed by ongoing and previous studies, including the 2019 NEPS assessment requested by CBL and provided by the WBG.** Recognizing the constraints in the current electronic payments landscape in Liberia, the CBL has requested WB support with the introduction of a new retail payment switch with instant payments functionality, among others. In September 2021, the CBL, with the support of UNDP, AfDB and the WB, has employed the services of a payment systems expert to carry out a study to guide CBL’s choice of switch solution that addresses business and product requirements of financial service providers, and to help to ensure adequate financial commitments and implementation arrangements are in place. As part of the ongoing assessment, a business plan will be prepared that outlines the business case, feasibility study, and projected growth for the switch to guide sustainable procurement and implementation. The study engages financial participants and other relevant stakeholders to effectively participate in leveraging financial services deliveries through the NEPS. The outcome of the assessment and the associated feasibility study will be presented to CBL higher management to obtain commitments required to cover any operational cost deficits until the NEPS becomes sustainable on the break-even point. Building on preliminary findings of the initial scoping report, activities under consideration include: (i) financing of the needed hardware, cloud-based solutions, software, and services needed to introduce the new retail payments switch and related infrastructure, including the required refurbishment of the primary data center and the disaster recovery

center; (ii) TA to ensure that the necessary institutional framework and requirements are in place to drive the successful introduction and operation of the NEPS. Considering previous issues with the sustainable procurement and implementation of the NEPS, the sub-component will also provide TA to ensure that procurement of the switch is done according to international best practices and to help ensure that the system is run in a manner that makes it sustainable in the long-term guided by the above-mentioned business plan that will be prepared.

60. **The sub-component's TA will also finance other aspects required to operationalize, manage, supervise, and increase usage of the switch.** A project management expertise will be required to support CBL during the implementation of the NEPS until the switch goes live and to build CBL capacity to manage and operate the switch activities. To help increase usage and viability of the NEPS, TA provided under this sub-component will also support the development and implementation of needed legal and regulatory reforms and other measures of electronic payment systems and DFS, along with capacity building for the CBL and market participants on electronic payments and DFS to ensure their readiness to utilize the NEPS and drive adoption of broader DFS. This includes facilitating the digitization of various forms of payments, including expanding the networks of digital access points linked to the national switch, and possible setting up of incentive schemes for merchant acceptance and usage of digital payments to further increase usage of the switch ensuring its long-term sustainability. As low levels of financial and digital literacy are a major barrier to the uptake of financial services, the project will also support design and implementation of a select number of financial education efforts targeting underserved areas and segments of the population that could drive usage of the payments system. To ensure effectiveness of these programs, the project will leverage the existing evidence based on effective approaches, draw from available tools, and best practices, including the good practices for increasing people's financial capability set out in the WB's 2017 Good Practices for Financial Consumer protection.

**Box 2: How the NEPS is Private Capital Enabling**

The Private Capital Enabling (PCE) approach aims to leverage the private sector and optimize the use of scarce public resources, as well as crowd-in private sector solutions working with development partners to achieve the Sustainable Development Goals. A core question involved in determining whether a public sector solution is appropriate is whether there is a sustainable private sector solution. In the case of the Liberia NPES there is not, as the low levels of financial sector usage in the country initially make the investments required unattractive for the private sector. While there is a plan for the CBL to divest from the NEPS and transfer responsibility to the private sector, this will require several years until the usage of the system is adequate for the private sector to consider investing in the system. The project will crowd-in the private sector through facilitating private sector investment in the NEPS, which will help facilitate further investments in the modernization of the payments system until the CBL divests from its ownership stake. The public-sector investment in improving the payments system will also help spur private sector investment in new payments products and services that utilize the switch, which promote financial sector inclusion and deepening.

***C.3.2: Credit Registry (US$1.5 million)***

61. **This sub-component aims to facilitate the establishment and operationalization of a modern credit reference system covering individuals and firms through a combination of TA and investment financing.** An IFC funded assessment of the current situation, including IT capabilities for information sharing on the ground, recommending upgrades, legal and regulatory adjustments is expected in January 2022. This IPF (Investment

Project Finance) will then provide: (i) TA on adopting a well-coordinated and competitive tendering process for recommended upgrades and adjustments and the development and implementation of robust system deployment plans, including user acceptance testing and fixes; (ii) TA on roll out of effective credit bureau and data analytics solution; (iii) TA on capacity building and awareness of stakeholders, and (iv) financing for implementation of the remaining phases of the current credit enhancement project, including recommended credit bureau upgrades and adjustments, including for integrating functionality to track movable collateral.

***Component IV. Project Implementation, M&E and CERC (US$4.0 million)***

62. **This component will support:** (i) Government and other actors capacity strengthening for coordination, design, and implementation; (ii) the administrative, technical, procurement of goods and services, and financial management of the project by Project Implementation Unit (PIU) under the oversight of Project Steering Committee; (iii) the coordination among all institutional partners to ensure the efficient flow of information among all actors and coordination with the private sector; (iv) the establishment of monitoring and evaluation (M&E) mechanism of the project's results and impact; (v) the development of communication activities to publicize and disseminate project results, best practices, and success stories; (vi) impact evaluations**.**

63. **Communications, citizen engagement, and stakeholder coordination activities during the project will also be financed by this sub-component and managed by the PIU.** These will include: (i) the development of a comprehensive communication strategy for each project target area as well as the preparation of all communication materials and, where appropriate, the organization of awareness raising events; these will be accessible to people with low literacy, disabilities and specially targeted to women (ii) the coordination of stakeholder involvement in project activities; and (iii) the implementation of a citizen engagement plan and feedback mechanism to inform project implementation.

64. **CERC (Contingent Emergency Response Component) (US$0 million).** In accordance with the World Bank's Operational Policy OP8.00, this sub-component will allow for rapid reallocation of project funds in a natural or constructed disaster or crisis that has caused or is likely to cause a major adverse economic or social impact. To trigger this sub-component, the Government must declare an emergency or provide a statement of fact justifying the request for activating the use of emergency funding. If the World Bank Group agrees with the emergency assessment, this sub-component would allow the government to request the World Bank to recategorize and reallocate financing from other project components to cover emergency response and recovery costs.

Legal Operational Policies

| | **Triggered?** |
|---|---|
| Projects on International Waterways OP 7.50 | No |
| Projects in Disputed Areas OP 7.60 | No |

Summary of Assessment of Environmental and Social Risks and Impacts

65. **The low client capacity, fragile country condition, the scale and scope of the project, and the potential E&S risks and impacts of proposed interventions conclude that the project's E&S risk is moderate.** However, the project is expected to achieve considerable benefits for the environment, people, and country because of the emphasis on supporting activities and enterprises that promote positive environmental and social milieu. Component 2 includes provision of technical assistance and lines of credit to entrepreneurs and BDOs in support of commercial activities. Some of these activities might potentially cause adverse environmental risks and impacts including waste generation (solid, liquid, hazardous waste), greenhouse gas emissions, air pollution, water contamination, noise, dust, occupational and community health and safety risks etc. The activities supported in component 3 on increasing digital services are anticipated to marginally increase electronic waste including release of heavy metals that could contaminate soil and water with deleterious effects on humans. Given the scale at which these activities will be implemented, the potential adverse risks and impacts on the environment are unlikely to be significant. The adverse impacts can be easily predicted with readily available mitigations. The project will minimize these risks and impacts by supporting activities and enterprises that are less damaging to the environment including those that use sound technologies with zero or minimum environmental footprint. The implementing agency lacks experience in the use of World Bank ESF (Environmental & Social Framework). The PIU will include a qualified and experienced Environmental Specialist who will benefit from tailored training delivered by the World Bank.

66. **The likely social risks associated with the project will include:** i) risks due to land acquisition, restriction on the land use and /or involuntary land acquisition due to the components C.2, since the specific scope and location of project activities, including subproject investments are unknown; ii) women vulnerability to Sexual Exploitation and Abuse (SEA) and Sexual Harassment (SH) mainly by authorities in return for official businesses permits/transactions, etc. iii) low participation of women (women headed households and young women) and most vulnerable (disabled and elderly) in the project due to family responsibilities such as taking care of siblings and handling household tasks, iv) limited property/land ownership rights mainly exclude women from owning land and widening the inequality gap that has been further deepened by conflict and pandemics such Ebola and COVID-19, v) possibilities of the project tumbling to elite capture in which its resources will be directed to benefit a few individuals favored by authorities and, vi) emergence of social conflict resulting from favoritism and lack of transparency and dissemination of eligibility criteria.

## E. Implementation

### Institutional and Implementation Arrangements

67. **A Project Operations Manual (POM)** detailing how the project will be implemented, including the institutional, implementation and procurement arrangements here presented, will be developed by the MoCI for review by the World Bank. The POM will be supplemented by a standalone LOC Operations Manual. Approval of the final version of the POM will be a condition for effectiveness, whereas approval of the final

version of the LOC Operations Manual will be a disbursement condition for the LOC. The operations manuals will guide the day-to-day implementation of project activities.

68. **A Project Implementing Unit (PIU)** within the Ministry of Commerce and Industry (MOCI) will provide project implementation support and lead day-to-day management of the project. The PIU will consist of the following: Project Coordinator, Procurement Specialist, Financial Management (FM) Specialist, Safeguards Specialists (Environmental and Social/Gender), two Technical Specialists (SME, Financial Sector Development), Climate Change Specialist, as well as M&E and Communication Specialists. The PIU team will be in place before project effectiveness. As with all Bank projects in Liberia, the Procurement and FM Specialists of this project will work closely with their peers at the Project Fiduciary Management Unit (PFMU) which sits at the Ministry of Finance and Development Planning (see paragraph below). The Technical specialists of the PIU will work directly with the Technical Implementing Ministries and Agencies (TIMAs) to ensure that each TIMA is provided with the technical, financial and procurement support required to achieve desired outcomes for the project. The PIU will work closely with the PFMU and will support coordination between the PFMU and TIMAs to ensure effective implementation of the project. Staff of the PIU will be hired by MOCI.

69. **Project Financial Management Unit (PFMU)** anchored as a specialized unit in the MFDP will be responsible for all financial management functions of the project. Specifically, PFMU's role is to manage project funds on behalf of the executing agencies, keep financial records according to World Bank standards, implement internal management control, and ensure regular external audit (in collaboration with the Audit Authority in the country); The PFMU will work in close collaboration with PIU and TIMAs in preparation of annual work plans, annual and quarterly reports, and contract management. The PFMU will assign the required fiduciary staff to the project. To support coordination between PIU and PFMU, the project will hire a Project Accountant embedded in the PIU to support the PFMU. Project Accountant may handle petty cash, support PIU to prepare documents required by PFMU and serve as the main link between the two arms of project implementation.

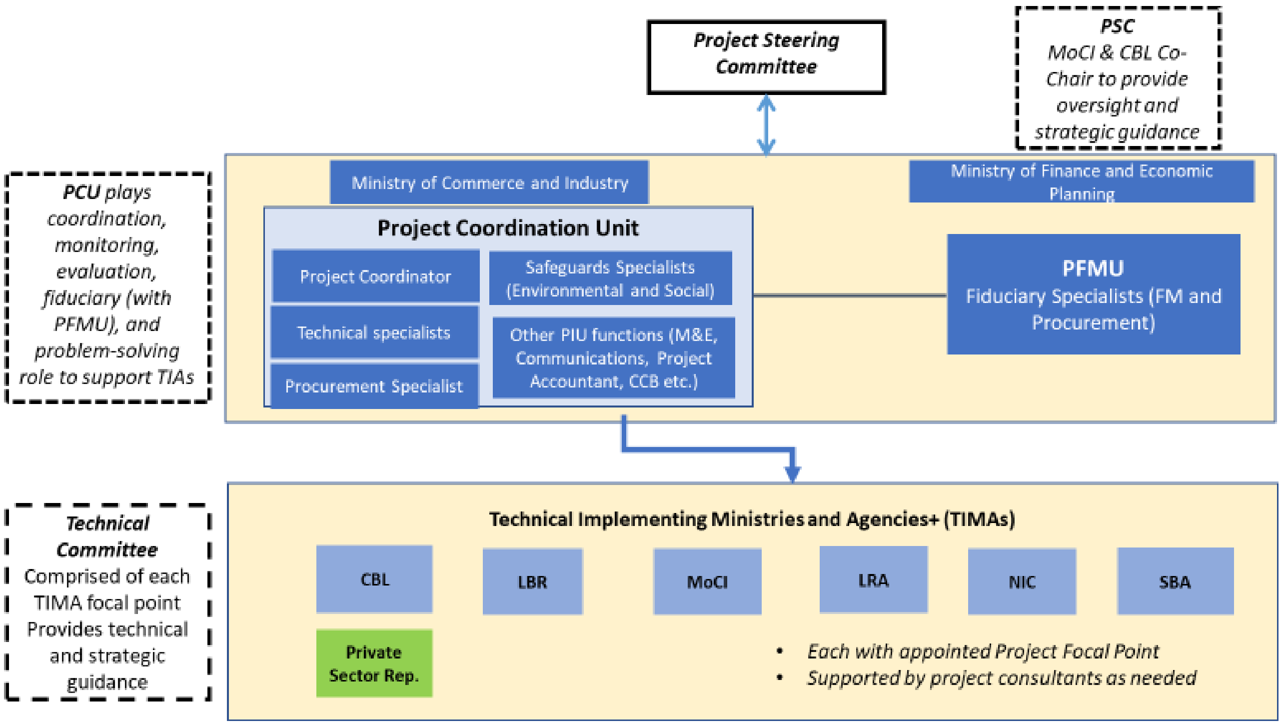
70. **Technical Implementing Ministries and Agencies (TIMAs)** consist of the implementing institutions for the overall project. These are CBL, MoCI, LBR, LRA, NIC, LSEZA and SBA. Each TIMA will designate a project focal point who will receive technical support from the relevant Technical Specialist(s) within the PIU to support the implementation of project activities.

71. **Project Steering Committee (PSC):** The Steering Committee will provide high level directional oversight to the project. The Steering Committee will comprise Ministers (or their designated representatives) of all relevant Ministries and Heads of relevant Agencies as well as representatives from the private sector. The PSC will be chaired by the Minister for Commerce and Industry and be co-Chaired by the Governor of the Central Bank of Liberia (CBL) given that the mandate of project activities broadly falls under these two institutions. The PSC will be responsible for the following:

- provide overall strategic advice and policy guidance for implementation of the project
- review and approve annual work plan, budget, and procurement plan
- review and discuss bi-annual and annual project progress reports and make recommendation
- assess progress towards achieving the project's objectives and take corrective actions if necessary; and
- act as a first-stage grievance committee for all safeguard-related complaints.

- The tenure of the Steering Committee will be five years, consistent with the project implementation period.

Figure 1: Project Institutional Arrangements




72. **Implementation Arrangement for Component 1**: the overall implementation of activities under this component will be coordinated by the PIU. However, selected TIMAs will lead the implementation of subcomponents. These are LBR, MOCI, LRA, LSEZA, NIC and IMCC. These TIMAs may develop TORs, provide technical leadership in the procurement of goods and services to support implementation of sub-component activities and lead the technical supervision of outputs from consultants. Implementation of such activities will be guided by activity plans formulated, appraised, and approved as part of the Annual Work Plan and Budgets (AWPB). The PIU and PFMU will facilitate the disbursement of funds to the TIMAs based on the agreements in the approved AWPB. The PIU will monitor implementation, and alongside PFMU, be responsible for fiduciary oversight to ensure that funds are used for the approved activities.

73. **Implementation arrangement for Component 2**: the overall implementation of activities under this component will be coordinated by the PIU. Two key TIMAs will be associated with providing technical oversight of this component – SBA and CBL. However, the project will hire a consultancy firm with international experience to (i) deliver TA to SMEs and LOC Beneficiaries. This firm will be responsible for the day-to-day operationalization of subcomponent 2.1. It will have a reporting relationship with the PIU and the SBA. As part of its Terms of Reference, this firm is to build capacity of staff of the SBA in the delivery of SME Facilitation program. The firm is expected to play an active role in identifying large off-takers and market opportunities for supported SMEs.

The firm is expected to mobilize expertise to deliver general and specialized business training and skills upgrading to SMEs, M&E and expertise to support two key priorities of the project – gender and climate change. Other relevant expertise may be hired by the firm as needed. Implementation will be guided by the terms of the supplementary Operations Manual for this subcomponent.

74. **Implementation arrangement of the LOC under C2**: will be delivered through selected Participating Financial Institutions. The CBL will provide technical support (to the PIU) in identifying PFIs as well as providing oversight. The funds will be disbursed to MFDP which will then on-lend to PFIs identified through a competitive selection process. It is envisaged that two retail financial institutions will be selected to implement the Line of Credit under this subcomponent, one commercial bank with extensive experience in SME lending and the other an experienced microfinance institution. The selected retail PFIs will meet all due diligence requirements of the World Bank in terms of governance, financial and outreach performance, and regulatory and supervision compliance as specified in the LOC Operations Manual.

75. **Implementation arrangement for Component 3:** Activities under this component will be overall coordinated by the PIU. However, the lead TIMA for this component is the CBL. The PIU's Financial Sector Development Specialist will work closely with relevant staff at the CBL, private sector and other development partners in the implementation of activities. The PIU and CBL will procure goods (NEPS) and consultancy services (TA) over the course of project implementation.

76. **Financial Management. The PFMU under the MFDP is currently responsible for over 90 percent of the World Bank's and other donor-financed Projects in Liberia.** The FM functions of the Project will be undertaken using the existing FM arrangements in place for projects at the PFMU which are assessed as adequate for ensuring that: (1) the funds are used only for the intended purposes in an efficient and economical way; (2) accurate, reliable and timely periodic financial reports are prepared and submitted; and (3) adequate fiduciary assurances are provided through an independent audit of the Project. The FM capacity developed under these Projects is adequate to meet the World Bank's requirements. The PFMU staff is comprised of 24 staff headed by the Director who is a Chartered Accountant, and all the staff in the PFMU are familiar with World Bank procedures.

77. **The Bank has carried out a Financial Management Assessment (FMA) to evaluate the adequacy of the financial management arrangements of the PFMU under the MFPD. The control risk is assessed as 'Moderate' and the overall residual FM risk for the Project is assessed as Substantial.** The objective of the assessment was to determine whether there is an acceptable FM and disbursement arrangement in place to control, manage, account for and report on the use of project funds and what technical assistance is needed to provide one. A detailed overview of the assessment findings and proposed risk mitigation measures include, among others, the provision of the FM services by the PFMU and the PIU who will also be responsible for the implementation of the project and the external auditing of the project by an independent qualified auditor (The General Auditing Commission). The LIFT Project (P171997) will need to be accommodated within the existing FM system. To do this, the PFMU will need to: (a) update the current accounting manual; (b) customize the existing accounting software to include the account of the new Project to generate the interim financial reports (IFRs) and financial statements; and (c) recruit external auditors which should be completed within six months of the Project becoming effective.

78. **Procurement. The Bank has carried out the required procurement capacity assessment of the implementing agencies and determined the risk to be substantial.** The procurement arrangement for the proposed project will follow the model in other Bank projects. The Borrower will carry out procurement under the Project in accordance with the World Bank's "Procurement Regulations for IPF (Investment Project Financing) Borrowers" (Procurement Regulations) dated July 1, 2016, revised November 2017, August 2018 and November 2020 under the "New Procurement Framework, and the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD (International Bank of Reconstruction and Development) Loans and IDA Credits and Grants", dated October 15, 2006, and revised in January 2011 and as of July 1, 2016, and other provisions stipulated in the Financing Agreements. The Project Procurement Strategy for Development (PPSD) has been prepared to guide preparation of the first eighteen months of the Procurement Plan. The PPSD enabled the project to do market analysis, identified the procurement strategies and procurement methods and as well as, identified weaknesses in the present procurement implementation and how the PIU will be able to use some features of the new Procurement Framework.

79. **Environment and Social Safeguards.** The Project's Environmental and Social (E&S) risks are assessed to be moderate. The E&S Risks Classification (ESRC) considered the magnitude and scope of the project, the inherent E&S risks associated with the project, the sensitivity of the recipient environment, and the capacity of the implementing agencies to manage, monitor and report on the E&S risks in line with the requirements of the World Bank Environmental and Social Framework (ESF). The PIU will include environmental and social specialists who will ensure that project implementation adheres to the World Bank ESF, applicable national regulations, and good international industrial practices (GIIP). The project has prepared an Environmental and Social Management Framework (ESMF) which provides guidelines on processes and procedures to follow to identify, assess, manage, and monitor environmental and social risks and impacts on the project and subproject activities. The ESMF clearly indicates the requirements applicable to the financial intermediaries (FIs) such as having in place a suitable environmental and social management system (ESMS) to manage potential risks and impacts that may be associated with the interventions they will fund under the project. Additionally, the project has prepared a Stakeholder Engagement Plan (SEP), Labor Management Procedures (LMP) and an Environmental and Social Commitment Plan (ESCP). The SEP defines strategies, methods, and channels through which the project will meaningfully engage the various stakeholders throughout the project's life to ensure their opinions and views are considered in decision making. The SEP includes a grievance redress mechanism (GRM) which provides avenues and feedback mechanisms for effective resolution of complaints on the project. The LMP is prepared consistent with the ESS2 and it defines key aspects of labor planning and management on the project. All the instruments: ESMF, SEP, LMP and a draft ESCP, have been consulted upon, reviewed, and cleared by the Bank and were disclosed in-country on December 15, 2021 and on the Bank's external website on December 16, 2021.

80. **Closing Gender Gaps.** Female-specific needs will be considered in the design and implementation of interventions, and the various training and financing programs. In the process, women led SMEs shall be promoted. A grievance redress mechanism (GRM) will be established to collect, record, and respond to gender-focused complaints on training and financing. The Grievance redressal committee (GRC) will include women and person with disability to make it more inclusive. The GRM would also be used for overall project-related issues, including social and environment safeguards related.

81. **Protecting Climate:** The project prioritizes the need to ensure that project activities do not have adverse effects on the climate. It also prioritizes the use of project resources (finance and human resources) to promote adaptive and mitigative measures amongst project beneficiaries. The project has Climate Change targets. The overall implementation of such activities will be led by the PIU (Climate Specialist) alongside other partners in GoL, private sector and development partners that are deemed useful in achieving overall CCB targets. The CCB SME facilitation will be managed by the firm hired under Component 2.1 It is envisaged that the PIU Climate Specialist will liaise closely with the firm in the implementation of activities.

82. **Private sector and citizen engagement during project implementation: The private sector is a key beneficiary and a strategic partner to this project. Therefore, the project is to be proactive in its engagement with the private sector during project implementation and ensure adequate channels to allow for private sector feedback. Similarly, Citizen Engagement is a priority.** The project will finance the following to support private sector and citizen engagement. These include: (i) the development of a comprehensive communication strategy for each project target area as well as the preparation of all communication materials in accessible form to people with low literacy, disabilities and specially targeted to women to create awareness and disseminate project information, (ii) private sector and citizens forum to disclose and receive feedback on projects semi-annual reports, (iii) establishment of a project level GRM that will also be sensitive to receive and manage project-related GBV (Gender Based Violence) complaints in a confidential manner, and (iv) beneficiary surveys.

83. **Consultations. The Project's concept was informed by years of investment climate activities by IFC, and access to finance activities supported by the World Bank.** Ongoing consultations took place during project preparation with Government and CBL but also with private sector (the IFC sponsored PPD), the Banking sector (through the Liberia Bankers Association), the Liberia Chambers of Commerce and the Liberia Business Association.

## CONTACT POINT

### World Bank

Thomas A. Vis
Senior Private Sector Specialist

Kiyotaka Tanaka
Financial Sector Specialist

### Borrower/Client/Recipient

Ministry of Finance and Development Planning
Samuel D Tweah
Hon. Minister
info@mfdp.gov.lr

### Implementing Agencies

Ministry of Commerce and Industry
Mawine Diggs
Hon. Minister
mgdiggs@moci.gov.lr

Central Bank of Liberia
J. Aloysius Tarlue
Executive Governor
jatarlue@cbl.org.lr

## FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

## APPROVAL

| | |
|---|---|
| Task Team Leader(s): | Thomas A. Vis<br>Kiyotaka Tanaka |

### Approved By

| | | |
|---|---|---|
| Practice Manager/Manager: | | |
| Country Director: | Khwima Lawrence Nthara | 06-Jan-2022 |